

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 92-607-S - ORDER NO. 93-567
JUNE 30, 1993

IN RE: Application of PM Utilities, Inc. for) ORDER
Approval of a New Schedule of Sewer Rates) APPROVING
and Charges for Sewer Service Provided to) RATES AND
its Customers in South Carolina.) CHARGES

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of Application filed by PM Utilities, Inc. (PM or the Company) on February 8, 1993, for an increase in its rates and charges for sewer service provided to its customers in Greenville County, South Carolina. This Application was filed pursuant to S.C. Code Ann., §58-5-240 (1976), as amended and 26 S.C. Regs. 103-821 (1976), as amended.

By letter dated February 25, 1993, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties of the manner and time in which to file appropriate pleadings. Additionally, the Company was instructed to directly notify all of its customers affected by the proposed increase. The Company submitted affidavits indicating that it had complied with these instructions. A Petition to Intervene was

received from the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

On June 3, 1993, a public hearing concerning the matters asserted in the Company's Application was held in the Commission's Hearing Room. Pursuant to S.C. Code Ann., §58-3-95 (Supp. 1992), a panel of three (3) Commissioners, Commissioners Rowell, Yonce, and Butler, was designated to hear and rule on this matter. Commissioner Rowell presided. The Company was represented by B. Joel Stoudenmire, Esquire; the Intervenor, Consumer Advocate for the State of South Carolina was represented by Carl F. McIntosh, Esquire; and the Commission Staff was represented by F. David Butler, General Counsel.

The Company presented the testimony of Roger Howell. The Commission Staff presented the testimony of Sharon G. Scott, Accountant, and William O. Richardson, Utilities Engineer.

Upon full consideration of the Company's Application, the evidence presented at the hearing, and the applicable law, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. PM provides sewer service to 13 residential customers and 1 commercial customer in the Look-Up Forest Subdivision, located in Greenville County, South Carolina. It appears from the records that PM Utilities is operating under rates and charges approved by Commission Order No. 14,684, issued March 18, 1969, in Docket No. 14,597 for the Rice Corporation. The Commission

approved the transfer from the Rice Corporation to PM Utilities, Inc. in Docket No. 92-212-S, Order No. 92-636 on August 5, 1992. The Commission approved the contract between PM Utilities, Inc. and Look-Up Lodge for the treatment of its wastewater at the rate of \$200 a month in Docket No. 92-212-S, Order No. 92-702 on August 27, 1992.

2. With regard to PM's present rates, the Company has a flat monthly fee of \$2.00 per residence for each residential customer, and \$200 per month for the Look-Up Lodge, the Company's commercial customer. With regard to the proposed rates of the Company, PM proposes to raise the residential rates to a flat fee of \$25.00 per month, and the commercial customer to a flat fee of \$275 per month for its sewer services.

3. PM asserts that its requested increase in rates and charges is necessary and justified because the Company's present rates do not generate enough income to properly maintain the system, and to ensure adequate sewer service for all of its customers. According to the testimony of Company witness Roger Howell, the utility presently serves 13 residential customers and 1 commercial customer. The administration of the utility that includes bookkeeping, billing, and submission of required reports is handled by PM Associates, Inc. This is an engineering and utility management firm which supplies certified professional operators and personnel. The present system can accommodate up to a total of 102 taps, however, no taps have been provided during the past 5 years, and none are anticipated. PM imposes no tap

fee. According to Mr. Howell, PM Utilities has received no service nor billing complaints, since acquiring the facility in August of 1992. This is the first requested rate increase for the service area since 1969.

4. Using a test year consisting of the 12 months ending December 31, 1991, Staff verified the per book balances to the Company's books and records. The book figures reflected the Company's operating revenues, totaling \$216.00. Total operating expenses amounted to \$3,635. This resulted in total income for return of (\$3,419). This produced an operating margin of (1,582.87%). Staff normalized the Company's operations by employing certain accounting adjustments. The net effect of the adjustments decreased total income for return from (\$3,419) to (\$10,664) producing an operating margin of (393.22%). The Company has requested an increase in sewer rates which would produce gross additional annual revenues of \$4,488. Total income for return after the effect of the proposed increase amounts to (\$6,245), producing an operating margin of (86.74%). The requested rates which produce \$4,488 in additional revenue constitute a 165.49% increase over the present rates. Within the residential class, the proposed increase from \$2.00 to \$25.00 is an increase of 1,150%. The increase for the commercial customer from \$200 to \$275 is a 37.5% increase.

5. Staff presented 9 accounting adjustments to the operating revenues, operation and maintenance expenses, administrative and general expenses, and taxes other than income.

First, Staff proposes to adjust revenues to reflect year-end customers at the present rates in an amount of \$2,496. The Commission adopts this adjustment as reasonable. Second, the Company proposed an adjustment of \$817 to adjust operating expenses for chemicals. Staff offered no adjustment because there was no known and measurable change. The Commission adopts the Staff's position on chemicals. Third, the Company proposed an adjustment of \$135 to operation expenses to adjust for Land and Lab analysis. Staff made no adjustment, stating that there was no known and measurable change. Again, the Commission adopts the Staff's position. Both the Staff and the Company proposed an adjustment of \$3,120 to maintenance expenses for employee Phillip Withem, who works an average of 2 hours per day, 5 days per week, 52 weeks per year at \$6.00 per hour. The Commission adopts this adjustment. Staff proposed an adjustment of \$6,300 to administrative and general expenses to adjust for management fees for PM Associates for computer time, telephone service, lawn service, operator in charge, and miscellaneous charges. The Company proposed an adjustment of \$10,200 to set expenses. The Staff removed the fee of \$325 per month for lawn service and emergency service, since the Staff believed that this was a duplication of the duties done by Phillip Withem, who was already being paid by the PM Utilities, Inc. The Commission agrees that \$325 per month is duplication, and therefore, adopts Staff's adjustment. Further, Staff proposes an adjustment of \$21.00 to administrative and general expenses for regulatory commission

expenses amortized over a three (3) year period. The Company proposes no such adjustment. The Commission believes that this is reasonable, and adopts Staff's adjustment. The Staff also adjusted for South Carolina Department of Health and Environmental Control's (DHEC's) NPDES annual operating permit. Staff proposes a \$300 adjustment. The Commission believes that this is correct, and therefore, adopts that adjustment. Both Staff and the Company proposed an adjustment to revenues for the proposed increase. Staff proposes an adjustment of \$4,488, whereas, the Company proposes an adjustment of \$6,984. The Commission adopts the Staff adjustment, since it believes that this number more accurately reflects the proper adjustment for revenues for the proposed increase. Finally, Staff proposes an adjustment of \$69.00 to taxes other than income to adjust for gross receipt taxes on a total income. The Company proposes no adjustment. The Commission has examined this matter and believes that the Staff's adjustment should be adopted.

CONCLUSIONS OF LAW

1. The Company is a sewer utility providing service in its service area within South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann., §58-5-10 et seq. (1976), as amended.

2. A fundamental principle of the ratemaking process is the establishment of a historical test year as a basis for calculating a utility's revenues and expenses, and consequently, the validity of the utility's requested rate increase. While the Commission

considers the utility's proposed rate increase based upon occurrences within the test year, the Commission will consider adjustment for any known and measurable and out-of-test-year charges and expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. See Southern Bell Telephone & Telegraph Company v. The Public Service Commission of South Carolina, 270 S.C. 490, 244 S.E. 2d 278 (1978). In light of the fact that the Company proposes that the 12-month period ending December 31, 1991, as the appropriate test year, and Staff has audited the Company's books for that test year, the Commission concludes that the 12-month period ending December 31, 1991 is the appropriate test year for the purposes of this rate request.

3. The Commission concludes that each of the Staff adjustments proposed by the Commission Staff are appropriate and these are hereby adopted by the Commission.

4. The Commission concludes that after pro forma and accounting adjustments, the Company test year operating revenues, operating expenses, and net income for return for its system were \$2,712, \$13,376, and (\$10,664) respectively. These figures are reflected in Table A as follows:

TABLE A
NET INCOME FOR RETURN

BEFORE RATE INCREASE

Operating Revenues	\$ 2,712
Operating Expenses	13,376
Net Operating Income	\$(10,664)
Customer Growth	-0-
Total Income for Return	<u>\$(10,664)</u>

5. Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility... that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

6. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a sewer utility whose rate base

has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable fees. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating revenues of the utility.

The Commission concludes that use of the operating margin is appropriate in this case. Based on the Company's gross revenues, operating expenses, and customer growth for the test year, the Company's present operating margin for sewer operations is as follows:

TABLE B
OPERATING MARGIN

BEFORE RATE INCREASE

Operating Revenues	\$ 2,712
Operating Expenses	13,376
Net Operating Income	<u>\$(10,664)</u>
Customer Growth	-0-
Total Income for Return	<u>\$(10,664)</u>
Operating Margin	<u>(393.22%)</u>

7. The Commission is mindful of the standard delineated in the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirement of the Company but also the proposed price for the sewer treatment, the

quality of the sewer service, and the effect of the proposed rates upon the consumers. See Seabrook Island Property Owners Association v. South Carolina Public Service Commission, 401 S.E. 2d 672 (1991); S.C. Code Ann., §58-5-290 (1976), as amended.

8. The fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p. 292.

9. Based on the considerations enunciated in Bluefield and Seabrook Island, and on the fundamental criteria of a sound rate structure as stated in Principles of Public Utility Rates, the Commission determines that the Company should have the opportunity to earn an (86.74%) operating margin. In order to have a reasonable opportunity to earn an (86.74%) operating margin, the Company will need to produce \$7,200 in total annual operating revenues.

TABLE C
OPERATING MARGIN

AFTER RATE INCREASE

Operating Revenues	\$ 7,200
Operating Expenses	13,445
Net Operating Income	<u>\$ (6,245)</u>
Customer Growth	-0-
Total Income for Return	<u>\$ (6,245)</u>
Operating Margin	<u>(86.74%)</u>

10. The Commission has carefully reviewed the financial status of the Company and its requested increase in its rates and charges. The Commission has also considered the interests of the utility, as well as those of the customers of PM Utilities. Whereas, the Commission believes that the Company should receive its full requested increase of an additional \$4,488, the Commission is concerned about potential rate shock on the residential customers, especially. Since the increase would constitute a 1,150% increase, the Commission believes that the increase as granted by this Commission should be phased in as described hereinafter. The Commission hereby holds that the Company shall receive an increase up to \$15.00 per month per residential customer, effective June 30, 1993. On June 30, 1994, the Company is hereby authorized to raise its rate to \$20.00 per month per residential customer. On June 30, 1995, the Company is hereby authorized to increase its rate to \$25.00 per residential customer per month. The proposed increase for the commercial customers of \$275.00 per month is effective June 30, 1993. In this manner, the

Commission hopes to mitigate potential rate shock for the residential customers in this case.

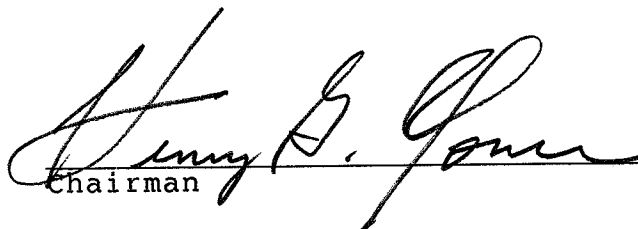
11. Accordingly, it is ordered that the rates and charges stated on Appendix A are approved for service rendered on or after the date shown. The schedule is hereby deemed to be filed with the Commission pursuant to S.C. Code Ann., §58-5-240 (1976), as amended.

12. It is ordered that if the approved schedule is not placed in effect within three (3) months after the effective date of this Order, the approved schedule shall not be charged without written permission of the Commission.

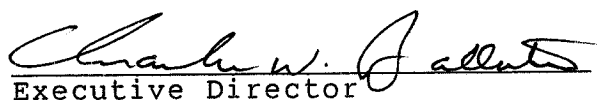
13. It is further ordered that the Company maintain its books and records for sewer operations in accordance with the NARUC Uniform System of Accounts for sewer utilities as adopted by this Commission.

14. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)

APPENDIX A

PM UTILITIES, INC.
P. O. BOX 1077
GASTONIA, N. C. 28053
(704) 867-6788

FILED PURSUANT TO DOCKET NO. 92-607-S - ORDER NO. 93-567

EFFECTIVE DATE: JUNE 30, 1993

SEWER SERVICE

SINGLE FAMILY RESIDENCE:

EFFECTIVE JUNE 30, 1993-----\$15.00 PER MONTH

EFFECTIVE JUNE 30, 1994-----\$20.00 PER MONTH

EFFECTIVE JUNE 30, 1995-----\$25.00 PER MONTH

COMMERCIAL:

EFFECTIVE JUNE 30, 1993-----\$275.00 PER MONTH